ART. IV. — 1. *Money.* By CHARLES MORAN. New York: D. Appleton & Co. 1863.

2. *Principles of Currency.* By EDWIN HILL. London: Longman, Brown, Green, and Longmans. 1856.

3. *Principles of Currency.* By BONAMY PRICE. Oxford and London: James Parker & Co. 1869.

OF all the numerous and violent changes produced in the United States by the war of the Rebellion, the most important is the change in the distribution of wealth consequent upon the creation of a great national debt. As a result of this change fiscal and financial problems have assumed with us an importance never before experienced, — an importance intensified by the absence of that study of such problems, which is scarcely ever undertaken except at the demand of practical necessity. We are thus face to face with problems of the utmost national importance, some of which have never yet been solved, and others have received only solutions which are not applicable to our situation; while to all of them we have as a nation heretofore been profoundly indifferent, and concerning their precise nature are consequently to a corresponding degree ignorant.

Our position is rendered more difficult even than is at first sight apparent from the fact that *all* our fiscal and financial problems have, through previous faulty legislation, become so thoroughly interlaced and interwoven with one another that it is utterly impossible to separate them, while at the same time our method of practical legislation does not admit of their being dealt with otherwise than separately, nor has as yet the master-mind appeared capable of dealing with them in the aggregate. So intimate is the relation between these different problems, that every effort to furnish a practical solution of either one of them has invariably been defeated by the influence of persons or classes interested in the others. The problem of taxation — without reference even to its methods — cannot be practically considered without first fixing the amount of revenue required. The amount of revenue required depends to a large extent upon the ultimate disposition to be

made of the national debt, its rate of interest, the methods of its reduction or final payment. No disposition can be made of the debt without widely affecting the national banks, whose very existence is based upon the debt. No change can be made in the national banks, without interfering with the currency, and with the currency is bound up the question of specie payments, while on the latter again both taxation and the funding of the debt are largely dependent. While in this view of the case we need no longer feel surprise at the chaotic condition of legislation on these subjects, we cannot but recognize that the currency problem, which is more intimately connected with all the other problems than they are with one another, is really the key to the situation.

No wonder that the other problems are little understood, when the one upon which all others depend for their solution is that profound mystery which, ever since the creation of political economy, has puzzled the wisest of economists, — the currency. It is scarcely an exaggeration to say, that, since the search after the philosopher's stone, no one subject has more thoroughly occupied the minds of able thinkers than the search after an acceptable theory of the nature of money. No abler minds have been occupied with any science for the last century than those which have devoted themselves to the study of economic science. In all other branches of this science conclusions have been reached which have been, if not universally approved, yet widely accepted. On the subject of money alone no two original thinkers have yet been found to agree. And where profound thinkers fail to agree, how can the thoughtless public be expected to form intelligent opinions?

Indeed, on no subject of universal interest does such utter want of knowledge exist as on this subject of money, while at the same time on no subject does every one express his opinion with equal confidence. We are as a nation peculiarly identified with money. The vulgar European belief in our worship of the "almighty dollar" is undoubtedly more or less well founded. As a people we unquestionably do think more of money than any other people of modern times. We love the possession of money in ourselves; we honor it in

others. Our principal object in life is to make money, and for the last ten years we have made more money, and have made it of more different kinds than ever nation did before. We are the largest producers of gold and silver in the world, and have been led to believe that our Pacific States are the great money-box of the nineteenth century. It was, therefore, not unnatural for us to think that, if ever people understood money, the people of the United States understood it.

It was this general belief, that the question is so simple and so thoroughly understood, which until recently has deterred many of our best thinkers from seeking to answer it; for in the intensely practical nature of our life we are too apt to shun labor which promises no result, and to avoid saying what may not be listened to. As Bastiat well said in his little pamphlet, "Maudit Argent," "I curse money, because I feel myself incapable of wrestling with the errors to which it has given birth, without a long and tedious dissertation to which no one will listen." But the extremely pressing nature of the national demand for a settlement of the practical questions connected with money has very materially changed the public temper with regard to the scientific discussion of its nature, and so great has been the reaction, that, for some time past, scarcely any topic has excited more universal attention. It now seems time to give the subject that thorough discussion which a few years since would not have been listened to.

All writers on money have assumed that, originally, all trade consisted of barter, and that barbarous peoples exchanged one kind of goods for another kind of goods without the use of any money whatever, and indeed without thought or knowledge of money; that for a long period of time people found it perfectly convenient to transact their business in that manner, and got along very well without money; but that at some time or other they discovered the inconvenience of this method of doing business, that then somebody *invented* money, and that everybody recognized the advantages of its use, and its use consequently became general.

This assumption is utterly unfounded, and is itself the foundation of many subsequent errors. In examining carefully the

historic or contemporary accounts of barbarous nations, it will be found that, even where barter flourished, money of some kind was almost always known, and that trade was carried on by barter only between strangers or those whose money was of different kinds. In fact, barter is a very complicated trade, which presupposes an advanced state of civilization, admitting of trade between peoples very wide apart in their natural productions, or else requiring a decided progress in the division of labor, so as to cause individuals of the same people to be engaged in very various occupations.

A far more natural assumption is, that trade originally consisted exclusively of *loans*. The strongest and most skilful individual of a tribe had killed an animal larger than he needed for his food; he would lend a portion of it to those less successful than himself, to be returned to him from the proceeds of their next chase. He had made a stronger, better bow, which he would lend when not using it. He had made larger crops and saved more, and of his savings he would lend. We are, unfortunately, unacquainted with the history of any people that had not advanced beyond this stage; but we do possess knowledge of peoples who are still in the very next stage beyond. And of these Mr. Du Chaillu's recent work on "Equatorial Africa" furnishes so striking an illustration that we cannot refrain from quoting it entire: —

"Let me here give the reader an idea of African commerce. The rivers, which are the only highways of the country, are of course the avenues by which every species of export and import must be conveyed from and to the interior. Now, the river banks are possessed by different tribes. Thus, while the Mpongive hold the mouth and some miles above, they are succeeded by the Shekiani, and these again by other tribes, to the number of almost a dozen, before the Sierra del Cristal, or Crystal Mountains, are reached. Each of these tribes acts as a go-between or middle-man to those next to it, and charges a heavy percentage for this office. Thus, a piece of ivory or ebony may belong originally to a negro in the far interior, and if he wants to barter it 'for white man's trade,' he intrusts it to some fellow in the next tribe nearer to the coast than his own. He, in turn, disposes of it to the next chief or friend; and thus ivory, or ebony, or bar-wood, or whatever, is turned and turned, and passes through probably a dozen hands ere it reaches the factory of the trader on the coast.

"When the last black fellow disposes of this piece of ebony or ivory to the white merchant or captain on the coast, he first retains a liberal percentage of the returns, and then hands the remainder over to his next neighbor above. He, in turn, takes a commission for his trouble, and passes on what is left, until finally the remainder — often little enough — is handed over to the original owner of the ivory tusk or ebony log."

It is very evident that this large and important trade among the Mpongive and Shekiani negroes is carried on without barter and without money, by the simple process of *lending* the article until the article itself is returned, or some other article brought in exchange. In other words, the trade of the Mpongive and Shekiani negroes is carried on, without barter and without money, by means of a system of trust or credit. So entirely natural and reasonable, so entirely in harmony with all *a priori* conclusions does this method of trade seem to us, that we do not hesitate to accept it as the original form of trade among barbarous peoples, entirely discarding the generally accepted theory of barter. We accept the theory all the more readily, because out of it the practice of using money develops itself in the most natural and orderly manner, and because it furnishes the only true explanation of money in all shapes and under all disguises.

Only a few pages beyond the quotation just given may be found a vivid description of the evils naturally growing out of this "credit" system, which Mr. Du Chaillu, in the interest of the trade on the coast, seeks to abolish. The negro in the far interior who first starts the ivory tusk on its voyage down the Gaboon finds one day that he gets no return at all; the fellow of the tribe next below him, to whom he had lent it, *is seized by his creditors* and the property taken from him; or he falls in with enemies and is killed, or taken prisoner and sold to slave-traders, or his canoe is upset by the rapids or by a startled rhinoceros, and his cargo lost. Even if the original beginner of the trade, — the man who killed the elephant or felled the tree, — even if he is not entirely deprived, by fraud or violence or accident, of the proceeds of his merchandise, he yet finds himself so often deceived, — finds so often that his returns of "white man's goods," received in exchange for his

own, are entirely out of proportion to his just anticipations, that he becomes at last unwilling to lend his goods, *unless he can get some reasonable security that he will receive a fair return.*

Now what security can a savage offer? His wealth consists in his arms, his trifling household utensils, and — *his ornaments:* the beads or shells around his neck, the gold or silver or copper rings on his arms or in his ears. These he pledges as security for the merchandise he borrows. Like Balafré, the Scotch archer in Quentin Durward, type of a different savage among more civilized nations, he bites the links off his golden neck-chain, and pledges them wherever he is in debt. The pretty sea-shells, the cowrie of the East African, the wampum of the North American Indian, the copper rings of the West African, the golden and silver rings of the West Indian and of the Mexican and Central American are all used by them as ornaments, and as ornaments are pledged by them as security for borrowed merchandise.

Accordingly, when the negro in the interior of Africa accepts his neighbor's personal ornaments as security for the merchandise he has lent him, it is not the ornaments which he wants; it is "white man's trade," — powder, shot, knives, hatchets, and the like, but he takes the beads and shells or brass and golden rings because he knows that the original owner will want them back, and that in order to get them back he will bring the powder and ball and rum which he has promised in exchange for the ivory tusk. As soon as he brings these he receives back his ornaments, and the trade is completed.

Far-fetched as this illustration may seem at first sight, it is in reality the most natural that can be imagined, and is based upon actual facts. To us it offers the most complete solution of the problem: What is money?

Money is a personal ornament temporarily pledged as security for merchandise borrowed.

All gold and silver have value only as ornaments. It is only when they are temporarily perverted from their original purpose that they become money. Among savages we readily recognize this truth, but we find it difficult to admit it among ourselves. Yet it is precisely as true to-day, in our highly

advanced civilization, as it ever was among the Aztecs, or as it is among the Mpongive negroes. By far the smallest portion of the gold and silver in existence is in the shape of money. By far the largest is in the shape of ornament. One needs only to reflect for one moment. Every man, woman, and child in the United States owns some trifling ornament of gold or silver. Think of the ear-rings and finger-rings, which everybody wears; think of the other ornaments worn by the more wealthy, the buttons and bracelets and breastpins, the gold and silver watches, the gold and silver pencil-cases; think of the gold and silver and plated table-ware, — the thousand and one things in every household that make up the nation's wealth of silver and gold, — and it will be evident that, with us at least, every individual owns more gold and silver in the shape of ornament than in the shape of money. The probabilities of the case evidently support our assertion. But we have better authority.

Jacob, in his elaborate "Historical Inquiry into the Production and Consumption of the Precious Metals," estimates (in 1831) "the quantity of gold and silver in actual existence [in England], including utensils, ornaments, jewelry, trinkets, and watches, as *three or four times as great* as the value of those metals which exists in the form of money." And McCulloch estimates the annual consumption of gold in the arts, which is almost all used for ornaments, as sixty millions of dollars a year, against only fifty millions of dollars used for coin. It is notorious, likewise, that a large amount of coin is every year melted down for use by jewellers, which would swell the proportion devoted to ornament, and *pro tanto* diminish that devoted to coin. Besides, McCulloch considers the amount annually absorbed by the East, amounting to over fifty millions, as an entirely separate thing, although all authorities agree that only a very small portion of this amount is ever converted into coin. If we take these two last items into consideration, we shall probably be near the truth in assuming that of the precious metals produced annually two thirds are converted into ornaments, and only one third, or perhaps less, into coin.

We cannot but think that reflection on these figures will

place the question of money in a somewhat novel light for most readers, and will make our comparison of our complicated money system with that of the Mpongive negroes seem less startling. The fact is, that of the precious metals now in existence and annually produced by far the largest proportion consists of, or is converted into, ornaments, and that from this storehouse, this reservoir as it were, of ornament, a portion is being constantly withdrawn for *temporary* use as security for merchandise borrowed. Personal ornaments constitute the great reservoir, the parent lake. Into that ever flows the great river of supply; from that is ever drawn the irrigating rivulet of coin, and into that flows back the coin rivulet when it has done its work elsewhere. When the Mpongive negro takes off his golden anklets, he takes a drop from the great lake of ornament, and when he pledges it with his Shekiani neighbor, he turns it into the stream of money. When he brings back the "white man's trade" from the coast and redeems his pledge, he takes back the drop from the stream of money, and replaces it in the lake of ornament. As long as his ornament is pledged as security it is money. The moment it ceases to be pledged as security it ceases to be money, and again becomes ornament. The essential transaction is the borrowing of the merchandise. So long as ornament is pledged as security for borrowed merchandise, it is money. So soon as the borrowed merchandise, or the equivalent agreed upon, is returned, the money, become ornament again, ceases to exist.

Money exists only as a security for borrowed merchandise.

Return once more to the Mpongive negro. When he accepts his neighbor's personal ornaments for the merchandise he has lent him, it is not the ornaments which he wants. What he does want is "white man's trade." He knows the original owner will bring the "white man's trade," in order to get his ornaments back; but he also knows that if the first neighbor fails to redeem his pledge, the very pledge will procure him from some other neighbor the articles which he desires, for the reason that all men are continually striving to possess themselves of an increasing supply of personal ornaments. In this manner the brass or gold ring pledged in his hands as security

for one negro's debt becomes a means of collecting that debt from anybody else, enables him to borrow from any one else the merchandise for which the original owner first pledged it. It thus makes no difference who it was that originally pledged the gold ring for the merchandise; the holder of the pledge knows that on that pledge he can borrow the same merchandise from any one else, and every owner of merchandise will lend his goods against that pledge, without inquiring who originally owned it. In this manner every one's desire to acquire personal ornaments induces every one to accept them as security for the loan of every kind of goods; in other words, money is everywhere accepted as security for borrowed goods, because it is immediately convertible into personal ornament, if no longer required as security.

But whoever may have first pledged the ring, in whosesoever hands the ring may be, it never is anything else but the security for the first original lot of merchandise borrowed. The original borrower of the ivory tusk is the original owner of the ring. When he returns the ivory tusk or its equivalent, the ring reverts to him. As it makes no difference to the original owner of the tusk who gives him "the white man's trade" in exchange for his tusk or in exchange for the trader's ring, so it makes no difference to the trader from whom he gets back his ring, so long as he gets it. So long as the trader holds the tusk his ring is money in somebody else's hands. So soon as he returns the tusk, or its equivalent, some one returns him his ring, or another like it, to wear as ornament; no matter through how many hands the ivory tusk may pass, there is only that one tusk borrowed against that one ring; no matter how many ivory tusks may have been borrowed, only one ring was pledged for each; no matter how many rings there may be pledged, each one was pledged for one tusk only; no matter through how many hands each ring may pass, there is only one tusk pledged for each one ring. *At this stage of civilization the money in existence is precisely equal to the total value of all the merchandise at that moment borrowed.*

So far we have spoken of money only as "ornament" pledged. It is very easy to understand how these ornaments

gradually assume the shape of "coin." Rings of brass or silver or gold of unequal size and weight are occasionally marked by the owner as weighing so many pounds or ounces, in order to establish their comparative value as ornaments. When once thus marked they become more desirable for use as security than other rings, and hence certain rings get gradually and insensibly set apart for purposes of trade, and are no longer generally used as ornament. When once a certain number of these rings is thus set apart, it is found more convenient some day to have them all of regular size and weight, and some rich owner smelts them down; and recasts them of equal size. Again, it is found that a flat, round piece of gold is more suitable than the hollow ring, and then some are recast in that shape. Again, some petty chieftain stamps his mark upon the pieces, to show to all men that each one is of a certain weight, and thus by slow, successive, almost inappreciable steps, gold bracelets and anklets develop into pillar dollars and double eagles, which pass current over half the globe, which everybody now calls coin, which nobody ever looks upon as ornament, but which everybody regards as something mysterious, incomprehensible, and of unknown origin.

But this slight change of the anklet and bracelet into pillar dollars and double eagles, of ornament into coin, does not change the essential nature of the thing in the least degree. Coin in no respect differs from uncoined money, except that it is not in precisely the best shape for use as ornament. Coin is precious metal, in a shape slightly more valuable for use as money, slightly less valuable for use as ornament. But, with this trifling difference, coin is in every respect precisely the same thing as the money we have heretofore spoken of.

Coin is a personal ornament, temporarily pledged as security for merchandise borrowed.

Coin exists only as a security for borrowed merchandise.

In a certain stage of civilization the coin in existence is precisely equal to the total value of the merchandise at that moment borrowed.

We assume that all trade consists originally in the loan of property or merchandise. We know that among certain bar-

barous peoples trade does consist simply in the loan of property or merchandise. We see these barbarous peoples carrying on a trade of considerable importance by precisely that method, by lending merchandise without acknowledgment, without security. We see these same peoples emerging into a somewhat higher sphere of development, still carrying on their trade by lending their merchandise, but now demanding an acknowledgment, a security, and giving as their security personal ornaments, which we see in the course of time gradually develop into coined money. In what essential aspect does the trade of these peoples differ from the trade of our European forefathers of the Middle Ages? In none whatever. The trade of Northern Europe five centuries ago was carried on almost exactly as here described. Merchandise was borrowed and coin given as security, and trade was limited to the limited amount of existing coin which could be given as security. Up to, and for many years after, the time of the discovery of America, the increase of wealth among European nations was far more rapid than the increase in the supply of precious metals. Gold, silver, diamonds, and other precious things cannot be produced to order. The quantity produced depends very largely upon the accidental discovery of the hidden sources of supply, and for centuries scarcely any addition was made to the stock of gold and silver at the world's disposal. At the same time that the wealth of Europe rapidly increased without any corresponding increase in the supply of the precious metals, the existing supply was, in ever-increasing proportions, absorbed for ornament by the wealthy. The celebrated Raymond Fugger could show to his liege lord, the Duke of Augsburg, "a little turret filled with chains and trinkets and jewelry, and strange coins and pieces of gold as large as heads, which he himself said were worth more than a million florins." On the other hand, the entire village of Volknatshofen with all its inhabitants was sold for only two hundred florins. So extraordinary was then the disproportion between the amount of gold and silver used as ornament and that in use as coin!

This condition of the coin supply was a source of extreme difficulty in the prosecution of trade, the desire to trade, *to*

borrow merchandise, being far in excess of the supply of precious metals required as security for the merchandise so borrowed. It was in this deficient supply of the precious metals that paper money, in all its forms, had its origin.*

The increasing wealth led to an ever-increasing desire, an ever-increasing necessity of trade. There was a constantly increasing supply of surplus products, which the producers were anxious to exchange for the surplus products of other peoples and other climates. It was this growing desire to find new markets for products that, more than any other single inducement, led to the great geographical discoveries of that age. But those discoveries and the trading out of which they grew, were hampered, delayed, and diminished by the extremely limited supply of precious metals which the extravagant desire for ornament had left for the uses of commerce. There absolutely was not coin enough to carry on even ordinary trade, still less to carry on the unusual trade which grew out of the new opening of entire continents. Either the trade must be abandoned, or the owners of merchandise must accept other security for the loan of their goods than coin. First, as a rare exception, for slight amounts, to men of the most unbounded credit, and afterwards, occasionally for larger sums, and to men of good standing, owners of goods were willing to lend them without requiring coin security. A simple written acknowledgment from the borrower that he was indebted for goods to the amount of the coin security which he would otherwise have given, was then accepted as sufficient security in place of the coin. And this acknowledgment was the first beginning of paper money. Whatever form paper money afterwards assumed, in whatever disguises it appears, it never, as will soon appear, is or can be anything else but what we have just described it, — a written acknowledgment given as security for merchandise borrowed.

To the thoughtful reader who has followed us so far it must

* The theory of money here enunciated furnishes at the same time the only explanation possible of the cause of *price*, a subject on which no political economist has, as yet, reached satisfactory conclusions. The price of every article is the amount of precious metal that a person is willing to give for the article in preference to holding the same amount of precious metal as ornament.

now be plain why this long introduction has been necessary. It is only by establishing clearly the nature of money that we can arrive at a clear understanding of the nature of paper money, or currency.

Money is a personal ornament temporarily pledged as security for merchandise borrowed.

Paper money is a written acknowledgment given as security for merchandise borrowed.

The general idea of paper money is apt to become confused by the belief that it has some necessary connection with banking. The connection of banks with paper money is entirely accidental, and has nothing whatever to do with the nature of paper money itself. When a borrower of merchandise found that his own written acknowledgment would not be accepted as security therefor, he procured, for a consideration, the guaranty of some other wealthier person to his written acknowledgment. This practice of guaranteeing other persons' written acknowledgments gradually grew into a regular business for wealthy individuals, principally bankers, or incorporated companies, and instead of guaranteeing other persons' acknowledgments, the banks gradually adopted the system of lending to these other persons their own (the banks') acknowledgments. So that the paper money issued by a bank in no essential respect differs from the original paper money, but is still a written acknowledgment given as security for merchandise borrowed.

If these views of the nature of money, of coin and of paper money, are correct, there are certain conclusions to be derived from them, which, if rightly deduced, must have the force of economic laws, and be at the same time of the utmost importance in their practical application.

I. As no coin can exist except as security for borrowed merchandise (since the precious metals, when not used as coin, are immediately converted back into ornament); as no paper money can exist except as a substitute for coin, in other words, as a security for borrowed merchandise; as no bank can issue paper money except as a substitute for the paper money of individuals, in other words, as a security for borrowed merchandise, — it follows that *the amount of paper money required by a nation is*

measured solely and exclusively by the amount of merchandise borrowed for which the lender of the merchandise may choose to exact paper money as security. In other words, the supply of acknowledgments for borrowed merchandise will always be equal to the merchandise borrowed, unless, by law or otherwise, people are prohibited from giving acknowledgments. The essential fact always is the borrowing of the merchandise. This alone is trade; by this alone is progress possible. The merchandise, the plough, the seed-corn that lies idle in the New York warehouse is dead and useless; but when lent to the Western farmer it becomes a waving field of grain. The timber, lying idle on the farm, is dead and useless, but when lent to the ship-builder becomes a noble vessel, that carries the grain where it is exchanged for tea and coffee and spices and salt. The essential fact, the inevitable fact, which always remains, is the borrowing of the merchandise. The giving an acknowledgment therefor is but an incident, a condition. But if that incident is not permitted to develop itself, if that condition is prevented from being fulfilled, the essential fact itself is undone. To prohibit the giving of an acknowledgment for merchandise borrowed is to prohibit the *borrowing* itself. To prevent the issuing of paper money is to prevent trade.

The prevention, of course, is not absolute; for trade is itself so entirely absolute a necessity that it cannot be prevented. Means are still found to trade, but they are inconvenient substitutes. Practically, the deficient supply of paper money compels merchants to do a large amount of business by means of what is commonly called "credit"; that is, by lending their merchandise without any security whatever, virtually returning to the absurd and barbarous practices of the Mpongive and Shekiani negroes on the Gaboon. If it were not for the absurd restrictions on the issue of paper money, there would be no need whatever for this injurious, hazardous, wasteful, demoralizing system of commercial credits.

II. *The amount of paper money required by a nation is constantly fluctuating*, and fluctuates precisely in inverse ratio to the fluctuations in the two principal causes which are generally supposed to regulate it. The amount of paper money

required depends — in this country especially — mainly upon the crops. Contrary to the general belief, *good crops call for less money than bad crops*, because bad crops make high prices, and high prices swell the amounts, in dollars and cents, of the daily business transactions of the country; good crops make low prices, small nominal transactions, and less paper money.

Next to the crops, — leaving aside wars, pestilence, etc. — the most powerful cause in influencing the amount of paper money required is the amount of the precious metals in use as coin. A large amount of trade is still done everywhere for coin. *The more coin there is in existence or in use* (which is practically always the same thing), *the less paper money is required to be substituted for it. The less coin there is in existence or in use, the more paper money is required to be substituted for it.* Nothing could show more clearly than this the utter fallacy of the theory, that the issues of paper money must or can be regulated by the amount of coin reserve held by banks, over which they have no control.

Very little attention has as yet been paid to the extraordinary changes produced by the conversion of coin into ornament, or the corresponding increased consumption of bullion for ornament and diminished supply thus left for coinage. Only very imperfect statistics on this subject are in existence, but they are so extraordinary in their teachings, that it is scarcely too much to say that the great money panics of the last sixty years have been, if not actually produced, certainly largely influenced, by the amount of the precious metals converted into ornament. We have already given the authority of Jacob and McCulloch in support of the assertion that by far the larger portion of the precious metals exists in the shape of ornament; we can now adduce the English revenue returns to show the nature of the fluctuations in the annual additions to the stock of ornament. These returns are, in the nature of things, highly imperfect, but are too striking to be disregarded. They show, in the first place, that throughout the Napoleonic wars the annual consumption of gold and silver for ornament steadily increased, owing undoubtedly to the great wealth accumulated by army contractors, etc., increasing nearly sixty

per cent from 1800 to 1810, and falling off again after the peace. The years from 1815 to 1825 show no material change, but in 1824 and 1825 England was visited by the great Mexican and South American mining excitement, by which many fools and rogues grew suddenly rich, or at least thought they did, and the consumption of gold and silver rose over sixty per cent above what it had been in 1820, and to nearly double that of 1800. It must be remembered that during this time the total gold and silver production of the world was very small. In December, 1825, occurred the great "December panic," probably the severest England has ever known, during which nothing but the accidental discovery of a box of unused one-pound notes saved the Bank of England from total collapse. From that year the consumption steadily declined, until in 1831 it was less than one half that of 1825, and had fallen below even that of 1800. From 1831 to 1836 a steady rise again took place, until in the latter year the consumption had risen over fifty per cent above that of 1831, and in 1837 the financial world was once more convulsed. From that year to 1843 is another period of steady decline, the latter year falling almost as low as 1831. Then follows another rise to 1846, showing an increase of nearly thirty per cent, followed by the great crisis of 1847, and a decline in the gold consumption of 1848 far below that even of 1800.* These figures show conclusively that the supply of gold of which banks can obtain control — apart even from the annual production — is influenced by causes utterly beyond their reach and beyond the reach of legislation. The object of paper money is to neutralize these causes, and to supply the place of coin withdrawn, not to be withdrawn with it, nor to intensify the public need by taking away the substitute at the very time that the real thing is being taken away. In this view it is impossible to imagine a greater folly than to attempt to regulate the supply of paper money by the supply of coin. The supply of paper money can be regulated solely and exclusively by the wants of trade. If legislation will refrain from interfering, no one will issue one dollar of paper money that is not wanted, because no one will give an acknowledgment of borrowed merchandise unless he has actually borrowed it.

* There are no later figures accessible.

III. *There should be no legal restriction on the amount of paper money issued.* — The practical objections to an unlimited paper currency are only two. One, the doubtful safety of the notes, will be considered further on; the other, their supposed influence on prices, is a delusion so often refuted that it seems unnecessary to discuss it at great length. If our view of the nature of paper money is correct, — that it is not, and never can be, anything but an acknowledgment of merchandise borrowed, which borrowing of merchandise *will* and *does* proceed in spite of every difficulty and hindrance, so that the refusal of the permission to issue paper money is simply a denial of the right to give an acknowledgment for the merchandise borrowed, — it is utterly impossible to conceive how restoring the right to give that acknowledgment can even remotely affect the price of the merchandise. All the unlimited issues of paper money that the world has yet seen have been made in times of war and revolution, when property was being rapidly destroyed and wasted, when property was being *taken by force, not borrowed*, and when the possible doubt of the return of the property taken or borrowed rapidly grew into a certainty that it *could not* possibly be returned. Such issues of paper money have been accompanied by, and have even caused, great and violent fluctuations in the prices of merchandise. But though ordinarily called paper money, these issues were in no true sense of the word paper money; the property which they acknowledged was not *borrowed*, it was *taken* by force, either actually, by levy, or more insidiously, by making the notes legal tender. It is evident that any advance in price resulting from such issues of so-called paper money has no application to real paper money, which is, of course, only given as an acknowledgment of *merchandise borrowed with the consent of the lender*. Until owners of merchandise lend their merchandise merely for the sake of lending it, and borrowers borrow merely for the sake of borrowing, it is impossible to conceive how the permission to acknowledge the borrowing can lead to one single additional act of borrowing. And if the permission to issue paper money cannot increase the number or amount of transactions, how can it possibly increase the price of the merchandise?

IV. *A paper money redeemable in coin is nonsense, is an impossibility.* — As all the precious metals in existence are constantly in active demand for ornament, and as all the coin in existence is constantly in active use in trade (otherwise it would immediately be converted back into ornament, a process which always takes place largely, for example, during a suspension of specie payments); and as all the coin in use is sufficient only to carry on the very smallest part of the trade of a country, and as paper money had to be created to take the place of coin that did not exist, where, in the name of logic, is the coin to come from to redeem the paper money? It should not need a reference to facts to prove that paper money cannot be, as it is called, redeemed. Paper money, though nominally reading, "I promise to pay," etc., *dollars and cents*, is nevertheless, if we have rightly described it, no promise to pay money at all. Its real meaning is, I owe this man as much merchandise as so many gold dollars and cents will buy. To demand the gold dollars is virtually a perversion of the contract, sanctioned by law and enforced by ignorance and selfish greed. But the facts show more clearly than anything else that paper money cannot be redeemed. There is not in the world gold enough to redeem the paper money, even if the whole of the gold were not at all times wanted for other and better purposes. As long as no one wants to redeem paper money it can always be redeemed. As soon as any one wants to redeem paper money, redemption becomes either absolutely impossible or else is accomplished only at the expense of universal injustice and national misery. The history of all the great banks that the world has known shows that as soon as redemption in coin is demanded it becomes impossible. Paper money redeemable in coin is one of the delusions of the past, like the squaring of the circle or the philosopher's stone. The sooner it is abandoned the better for all peoples.

V. *There is no such thing as redeeming paper money. Paper money is cancelled, not redeemed.* — The Western merchant who comes to New York in the spring to buy ploughs and harnesses to sell to Western farmers knows that his individual acknowledgment will not be accepted by the New York manufacturers' agent as security. He goes to the bank of his

town, and there procures, for a consideration, and against security, the acknowledgments of that bank for the amount that he expects to buy in New York. The acknowledgments of the bank are acceptable to the New York dealer, and he sells the ploughs. So far it is clear that the New-Yorker holds the acknowledgments of the Western bank for the ploughs sold or loaned. Practically the New-Yorker does not retain those acknowledgments; he pays them into his own bank, or buys other ploughs with them, or spends them for his living. But wherever the acknowledgments (the Western bank-notes) go, they always are and remain simply the acknowledgments for the ploughs borrowed. Suppose, for simplicity's sake, the New-Yorker did retain those identical bank-bills in his safe, or in his bank (as he really does at all times retain some bank-bills); in the summer the farmers who bought the ploughs send in to the Western merchant their wheat; he in turn sends it to the New-Yorker, who thereupon hands him back his bank-notes, his acknowledgments for the ploughs; the Westerner returns the notes to his bank, and takes out the security he had left for them. Now, what becomes of those notes, those acknowledgments for ploughs borrowed in New York? They have virtually ceased to exist. The acknowledgment of an obligation has no existence the moment the obligation itself is complied with. The ploughs, or their equivalents, have been returned to the original lender, the transaction is closed, the acknowledgment has no meaning, is virtually cancelled. The notes themselves, it is true, the pieces of paper, are not destroyed. They lie safe in the vaults of the Western bank, where they are no more money than the anklets of the Mpongive trader on the Gaboon. They are to all intents and purposes cancelled; they become notes again only when issued again as acknowledgments of some fresh transaction.

This is really the true nature of the course which a bank-note takes, though in practice it is less simple. In practice the New-Yorker uses the notes to pay the manufacturer from whom he bought the ploughs, or to buy a new stock; the manufacturer pays it to the lumber-dealer and to the workmen he employs, and so on, until it gets into the hands of the grain-

dealer, who in due time takes it to the West and pays it to the farmer, who hands it over to the Western merchant, who finally pays it back into the bank. In the ordinary course of trade bank-notes are never redeemed in coin, but redeem themselves, as it were, by the transactions of trade, and are cancelled.

VI. *Redemption is required only to settle balances and to test the solvency of the issuers.* — If the New York seller of the ploughs, or the bank with whom he deposited the Western notes, had felt doubtful about the security of these acknowledgments, they would have sent them to the Western bank, and demanded their redemption; *not otherwise*, because as long as the Western merchant's engagement remains unfulfilled, as long as he has not sent the grain of the West to the East in actual payment of his ploughs, the notes are required at the East to represent that engagement, and they are more desirable for the time than any other property, provided there is no doubt of their safety. But should a doubt as to the latter arise, they would then be sent for "redemption." Supposing, then, the Western bank said, "I gave these notes in place of the notes or acknowledgments of the man to whom you sold your ploughs; if you do not wish my acknowledgments, take his"; of course this would not suit the New York banker. His answer would be, "I need something that will be acceptable everywhere as an acknowledgment; the Western merchant's acknowledgment may be good enough, but no one will take it from me in payment of debts"; and of course he would be right. The only reason for which redemption can be desired is fear for safety. The only redemption which can be required is redemption with some other acknowledgment more safe than that of the issuer. We have already seen that redemption in coin is an impossibility. What other redemption is possible? Evidently only that which, in a very imperfect, half-developed form, exists now: redemption in securities of the United States.

VII. *The only redemption practicable is redemption in United States securities.* — Virtually, this redemption already exists. The notes of National Banks are secured by a deposit in the Treasury Department of a corresponding amount of United States Bonds, which are sold for the benefit of the note-holders

in case of the failure of the bank. But between the bill-holder and this redemption in bonds intervenes a cumbrous and senseless redemption in something else. The National Bank Act was really one of the first steps toward the emancipation of the world from the barbarous specie redemption. But it was only an unconscious step in that direction, for it sought to perpetuate the very evil which it is destined ultimately to cure. It provided that the notes of the banks should be redeemable in greenbacks, repeating precisely the exploded folly of coin redemption, first furnishing a substitute to take the place of the insufficient original, and then demanding that the insufficient original shall be made still more insufficient by being kept on hand to redeem the substitute! If this intermediate redemption were removed, the national bank-notes would be far more nearly a true currency than they are now. If the national banks could at any time redeem their bonds from the Treasury by presenting a corresponding amount of any national bank-notes, the notes of the national bank would approach more nearly to a perfect paper money than any that has ever before existed.

VIII. *Redemption is prevented by making the bank currency free.* — We have seen that when the Western merchant sends his grain to the New York plough-dealer, and brings back the notes of the Western bank, these notes are virtually cancelled. But the notes themselves, the pieces of paper, are not destroyed. They lie in the vaults of the Western bank. *Now it is precisely as they lie there that they do all the mischief that paper money is ever capable of accomplishing.* While the New York plough-dealer held those notes in his safe, the Western merchant was paying the Western bank interest on them. As soon as he no longer absolutely requires them, he immediately returns them to the bank, in order to stop the interest he is paying. He receives back from the bank the security which he had given and his own acknowledgment which accompanied the security, and then destroys his own acknowledgment, which, like a paid note, has no longer any meaning. *He* destroys his acknowledgment, because its use cost him interest. *The bank* does *not* destroy or cancel *its* acknowledgments. Why? Because it receives them from the government *for nothing!* If the bank had to pay for its notes the same, or nearly the same

interest as the merchant does, it would immediately cancel them as soon as they ceased to earn more interest than they cost. But as the bank gets the notes for nothing, everything it earns with them is clear gain. While the notes lie in its vaults, they earn nothing. The temptation is irresistible to make them earn something. Every trick, scheme, and device is resorted to "to keep the notes out," that is, to induce somebody to enter into some transaction which will cause him to require the acknowledgment or notes of the bank in place of his own. Now, as by the foolish limitation of the law only certain amounts of notes can be issued, and as this amount is never sufficient to perform all the transactions which take place at busy seasons of the year, and as many transactions are thus rendered difficult and unprofitable at those times, owing to the impossibility of procuring the necessary acknowledgments for them, many persons who do not understand the nature of money and its origin think that those transactions which were unprofitable when "money was scarce" will become profitable when "money is easy," and are frequently, nay, constantly, tempted to enter into wild schemes and speculations, and all sorts of absurd combinations, as soon as they find it possible to procure the acknowledgments which they could not obtain when they were more urgently needed for the legitimate business of the country. This would, in itself, be a comparatively light evil. But in its consequences it is a grave one. These acknowledgments, once lent by the banks to speculative customers, can scarcely ever be recovered in time when they are wanted by the merchant to buy his ploughs. In this way the legitimate business of the country is deprived of even the limited amount of paper money permitted by law, when it most needs it, solely because that paper money, costing the bank nothing, is not cancelled, as it should have been, the moment its real duty has been performed, and as it would have been had it not been obtained by the bank free of cost. If paper money could at all times be obtained in sufficient quantities to enable trade to carry on its transactions by means of paper money, that is, to give paper acknowledgments for all merchandise borrowed, there never would be any temptation to enter into any transaction merely on account of the ease with

which the money could be obtained, and thus one of the greatest evils anticipated from an unlimited issue would, on the contrary, be actually corrected by it. If the banks did not get their currency for nothing they would not be tempted to lend it for fictitious schemes that ultimately involve everybody in loss, and deprive legitimate trade of its necessary instruments. If the banks, like the merchant, had to pay interest for the paper money which the government issues to them, they would themselves at all times be only too anxious to redeem it the moment they could not lend it at a better rate of interest than that which they pay the government for it. It is thus simply the fact that the banks obtain the currency for nothing, which at the very same time induces reckless speculation and violent fluctuations in the rate of interest, and prevents the notes from being redeemable when not required.

Paper money, or true currency, is an acknowledgment of indebtedness for merchandise borrowed. There should be no limit to every one's right to borrow as much merchandise as he pleases, and to give acknowledgments therefor. If his own acknowledgments are not acceptable as security, there should be no limit to the right of everybody else to give acknowledgments for him. If this is the business of banks, there should be no limit to *their* right to issue such acknowledgments, such paper money.

Redemption of paper money in some way is necessary for the settlement of balances, and as a test of the solvency of the issuers. Redemption in coin is impossible. The only redemption possible is a redemption in United States bonds, which must be simple, direct, accessible to all, and self-acting.

Self-acting redemption is obtainable only by making it the interest of the issuer to redeem. It can become his interest to do so only when the currency is a source of expense to himself, — when the issuer has himself to pay interest for it.

Self-acting redemption is an absolute cure for all speculation and reckless enterprise based upon cheap money, the same as an unlimited supply is an absolute cure for high rates of interest and currency panics.

If the entire United States debt were funded into a four per cent coin bond, there would be in round numbers two thousand millions of four per cent coin bonds in existence. Suppose,

then, it were settled by law, that every individual or corporation could, on application to any sub-treasurer of the United States, obtain all the greenbacks that he desired, in lots of ten thousand dollars, in exchange for these United States four per cent coin bonds, — receiving the par value of the bonds and the interest accrued at the time of depositing them, — and that every individual or corporation could in the same way receive any amount of United States four per cent coin bonds that he desired, against the deposit of greenbacks, paying for them the par value of the bonds and the interest accrued at the time of receiving them. Should we not then have a currency as nearly perfect as it is possible to make it, according to the views just given of what currency really is?

Such a currency would be practically unlimited; for as soon as money came to be worth more than four per cent in coin, every owner of bonds could obtain all the money he wanted at four per cent coin interest, with the certainty of getting back his bonds at par whenever he wanted them. Such a currency would be self-redeeming, for so soon as money should cease to be worth more than four per cent in coin the holders of the currency would immediately exchange it for bonds, with the certainty of getting back their currency at any moment they might want it.

Such a currency would materially reduce the interest charge upon the public debt. The very condition necessary to make it self-redeeming — that it should be costly to the owner — would constitute a source of large national revenue without creating fresh taxes of any kind. For, as long as the bonds were deposited with the Treasury as security for greenbacks, they would not, of course, bring the owner any income, — he would derive his income from the lending of the greenbacks, — and the Treasury would save the interest during the whole of this time. Nor would this gain to the Treasury involve a loss to any one. It simply causes the Treasury — or really the people — to derive the benefit of a saving which heretoore was entirely lost to the country by the idle hoarding and enforced uselessness of large amounts of capital, held for the delusive purposes of redemption, or unemployed from want of the necessary "money" facilities.

Such a currency, we believe, is the currency of the future.

JAS. B. HODGSKIN.